



Matt Blunt, Governor
State of Missouri

Gregory A. Steinhoff, Director
Department of Economic Development

Division of Credit Unions
301 West High Street, Room 720
PO Box 1607
Jefferson City, Missouri 65102
Phone: (573) 751-3419
Fax: (573) 751-6834
Email: cu@ded.mo.gov
www.cu.ded.mo.gov

Sandra K. Branson
Director

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TO: Management of Missouri state-chartered credit unions

SUBJECT: Overdraft Protection (Bounce Protection) Programs

Recently, many credit unions have begun offering "courtesy pay" programs. Many of these programs have taken the place of traditional overdraft protection lines of credit.

Under the courtesy pay program credit union's choose to honor share drafts up to an aggregate limit even if there are insufficient funds in an account. In return, the credit union receives a fee for each draft that has been paid. Typically, credit union members are allowed to overdraw their checking accounts anywhere from \$300 to \$1,000.

If administered correctly these programs can benefit both credit unions and credit union members. Members avoid the inconvenience and embarrassment of returned checks, while credit unions receive additional fee income.

In conjunction with recent guidance issued by federal regulatory agencies, the Division wanted to clarify our position on these programs. The following accounting practices should be followed:

- Report overdrawn share draft balances as loans on the quarterly call report
- If a limit is granted, report the unused portion as "unused commitments" on the quarterly call report.
- Overdraft balances should be charged off no more than 60 days from the point when the account was first overdrawn.
- Balances should be charged off to the Allowance for Loan and Lease Losses (ALLL). The fee portion of the balance should be written off to income.

- Any payments received after the account has been charged off should be reported as recoveries to the ALLL.
- Aggregate the unused limits and reserve for this “pool” based on past loss experience

In the past twenty-four months this office has received numerous complaints from credit union members concerning courtesy pay programs. In many cases, these complaints could have been avoided if members understood the courtesy pay program. Proper account management is the responsibility of the member, however, credit union management must make sure that clear disclosures are given to the membership well in advance of implementing a courtesy pay program. Disclosures must provide explanations to members of the operation, costs, and limitations of the program.

As with any other new product or service, we expect management to exercise sound judgment when implementing a courtesy pay program. Questions concerning the above guidance should be directed to your assigned examiner or the Division of Credit Unions office in Jefferson City at 573-751-3419.